

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.06)

Unit Name: Port Austin Area Sewer & Water Authority	County: HURON	Type: AUTHORITY	MuniCode: 32-7-501
Opinion Date-Use Calendar: Aug 22, 2008	Audit Submitted-Use Calendar: Aug 28, 2008	Fiscal Year End Month: 02	Fiscal Year: 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	? \$ 942,091.00
General Fund Expenditure:	? \$ 787,916.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	? \$ 3,939,128.00
Governmental Activities Long-Term Debt (see instructions):	?

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name): Douglas	Last Name: Brining	Ten Digit License Number: 1101008283		
CPA Street Address: 64 Westland Drive	City: Bad Axe	State: MI	Zip Code: 48413	Telephone: +1 (989) 269-9909
CPA Firm Name: Brining & Nartker, P.C.	Unit's Street Address: 17 W. State Street	Unit's City: Port Austin	Unit's Zip: 48467	

**PORT AUSTIN AREA SEWER
AND WATER AUTHORITY
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT
FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
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FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

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BRINING & NARTKER, P.C.

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INDEPENDENT AUDITORS' REPORT


To the Authority Members
Port Austin Area Sewer and Water Authority
Port Austin, Michigan

We have audited the accompanying financial statements of the business-type activities of the Port Austin Area Sewer and Water Authority as of and for the years ended February 29, 2008 and February 28, 2007. These financial statements are the responsibility of the management of the Port Austin Area Sewer and Water Authority. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Port Austin Area Sewer and Water Authority as of February 29, 2008 and February 28, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the business-type activities financial statements taken as a whole. The accompanying additional information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


BRINING & NARTKER, P.C.
Certified Public Accountants

August 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORT AUSTIN AREA SEWER & WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Port Austin Area Sewer & Water Authority (PAASWA) is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the fiscal year February 29, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

2008 FINANCIAL HIGHLIGHTS

- The utility's operating revenues increased \$53,412 or 10.52% from 2007 to 2008. This was largely due to a leak in the Woodlands of Port Austin subdivision that accounted for over \$3,500 in revenue and the addition of Pointe Aux Barques Township as a customer which purchased nearly \$19,000 worth of water and paid a connection fee of \$10,000.
- The utility's operating expenses increased \$37,779 or 5.37% from 2007 to 2008. The majority of this increase of \$37,000 is for water purchased from the Huron Regional Water Authority.
- The utility's total net assets increased \$154,175 or 4.07% from 2007 to 2008. The Port Austin Sewer and Water Authority received the portion of the water main constructed by Pointe Aux Barques Township that lies in Port Austin Township as part of the agreement, thus increasing the total assets.

GENERAL INFORMATION ABOUT PAASWA

PAASWA was created in 1983 when the Village of Port Austin and Port Austin Township decided to construct a sewer system and wastewater treatment plant. EPA grants and a bond issue in the amount of \$2,225,000 were used to finance the project. Each property was assessed \$2,400 per REU to pay for the bond issue. In 2002 the interest rates decreased and it became feasible for PAASWA to reduce the debt. In November of 2005 the balance of the principal of the bond issue was paid in full thus leaving the authority with no debt.

In 1995 the Village of Port Austin water system was turned over to PAASWA. At that same time the Village of Port Austin bonded with USDA Rural Development to construct a 20 inch buried intake into Lake Huron. The total cost of the project was \$1,475,000 of which \$975,000 was financed through USDA Rural Development.

In January of 2002 PAASWA purchased the property at 76 W. Spring St. with the intent of constructing a new water plant. The formation of the Huron Regional Water Authority in December of 2002 removed the burden of constructing a new water plant. In August of 2004 the Huron Regional Water Authority purchased the water intake and the property from PAASWA by paying off the remaining principal.

PAASWA currently serves approximately 680 customers in the Village of Port Austin and approximately 50 customers in Port Austin Township.

PORT AUSTIN AREA SEWER & WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

RATES

The utility last increased its commodity rate for water in March of 2003. An increase to the Ready-to-serve charge went into effect in June of 2003. The current rates charged by PAASWA are about average of any like sized utility (less than 1,000 customers).

The commodity rate for wastewater or sewer increased 4.73% or \$.30 per 1,000 gallons of water the customer was billed for. The previous rate of \$6.34 was increased to \$6.64 on March 1, 2007. The customer base was charged a minimum of \$25.24 prior to the increase and \$26.56 after the increase per bi-monthly billing period. This minimum charge allows the customer 4,000 gallons of usage and any amount over this minimum is billed based upon the \$6.64 per 1,000 rate. A subsequent rate increase occurred March 1, 2008.

UTILITY FINANCIAL ANALYSIS

The statements of Net Assets include all of the utility's assets and liabilities and provide information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluations the capital structure and assessing the liquidity and financial flexibility of the utility.

A summary of the utility's Statement of Net Assets is presented in Table 1.

Table 1

Condensed Statements of Net Assets

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Current and Other Assets	\$183,216	\$209,953	\$162,388
Restricted Assets	354,420	277,231	227,111
Capital Assets	3,619,277	3,546,931	3,991,515
Total Assets	<u>4,191,356</u>	<u>4,034,125</u>	<u>4,381,014</u>
Debt Outstanding	108,622	122,353	352,989
Other Liabilities	165,997	126,819	88,897
Total Liabilities	<u>274,619</u>	<u>249,172</u>	<u>441,886</u>
Invested in Capital Assets			
Net of Related Debt	3,619,277	3,546,931	3,680,745
Restricted	188,423	150,412	0
Unrestricted	<u>74,594</u>	<u>87,610</u>	<u>258,383</u>
Total Net Assets	<u>\$3,882,294</u>	<u>\$3,784,953</u>	<u>\$3,939,128</u>

Net Assets increased \$154,175 or 4.07% during the fiscal year ending February 29, 2008.

PORT AUSTIN AREA SEWER & WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2007 OPERATING RESULTS

Table 2

**Condensed Statements of Revenues,
Expenses and Changes in Net Assets**

	2006	2007	2008
Operating Revenues	\$510,275	\$507,855	\$561,267
Non-Operation Revenues	62,834	97,246	51,824
Total Revenues	573,109	605,101	613,091
Operating Expenses	475,917	563,949	599,285
Depreciation Expense	139,138	138,493	140,936
Non-Operating Expense	6,750	0	0
Total Expense	621,805	702,442	740,221
Income Before Capital Contributions and Transfers	(48,696)	(97,341)	154,175
Capital Contributions Transfers - Tax Equivalent	0	0	0
Changes in Net Assets	(48,696)	(97,341)	154,175
Beginning Net Assets	3,930,990	3,882,294	3,783,953
Adjustment to Net Assets			
Ending Net Assets	\$3,882,294	\$3,784,953	\$3,939,128

The utility's operating revenues increased by \$53,412 or 10.52% in 2008. This is attributed to the water sold to Pointe Aux Barques Township during the year and the connection fee from them. The Authority averages eight new connections each year but in FYE 2008 the Authority had only three new connections. Depreciation expense increased slightly during 2008 as a result of the water main that was deeded over from Pointe Aux Barques Township and the purchase of a new work truck.

Revenue from investment income has decreased over the last few years due to the low interest rates. The income from late fees and penalties has remained relatively constant.

PORT AUSTIN AREA SEWER & WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 3

OPERATING REVENUES AND EXPENSES

	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING REVENUES:			
User Fees	490,946	492,179	515,019
Other	<u>19,329</u>	<u>15,676</u>	<u>46,248</u>
Total Operating Revenue	510,275	507,855	561,267
 OPERATING EXPENSES:			
Contractual services:			
Management Services	409,332	359,601	367,492
Legal	3,359	487	635
Audit and Engineering	13,938	8,600	9,502
Board Fees	2,380	2,566	2,295
Supplies & Maintenance	0	7,819	0
Insurance	21,559	20,706	18,141
Other	10,333	3,957	4,043
Huron Regional Water Authority	15,016	160,213	197,177
Depreciation	139,138	138,493	140,936
 Total Operating Expenses	<u>615,055</u>	<u>702,442</u>	<u>740,221</u>
 NET OPERATING INCOME(LOSS)	<u><u>\$(104,708)</u></u>	<u><u>\$(194,587)</u></u>	<u><u>\$(178,954)</u></u>

Revenues

Total revenues increased from \$605,101 in 2007 to \$613,091 in 2008, an increase of \$7,990 or 1.32%. This is largely attributed to the sale of water to Pointe Aux Barques Township. The amount of interest revenue is decreasing because the outstanding principal balance is decreasing. Also, as the outstanding principal amount decreases some of the residents are paying off the principal. To off-set the continued decrease in the assessment revenues the sewer rate was increased from \$6.64 to \$6.94 per 1,000 gallons effective March 1, 2008.

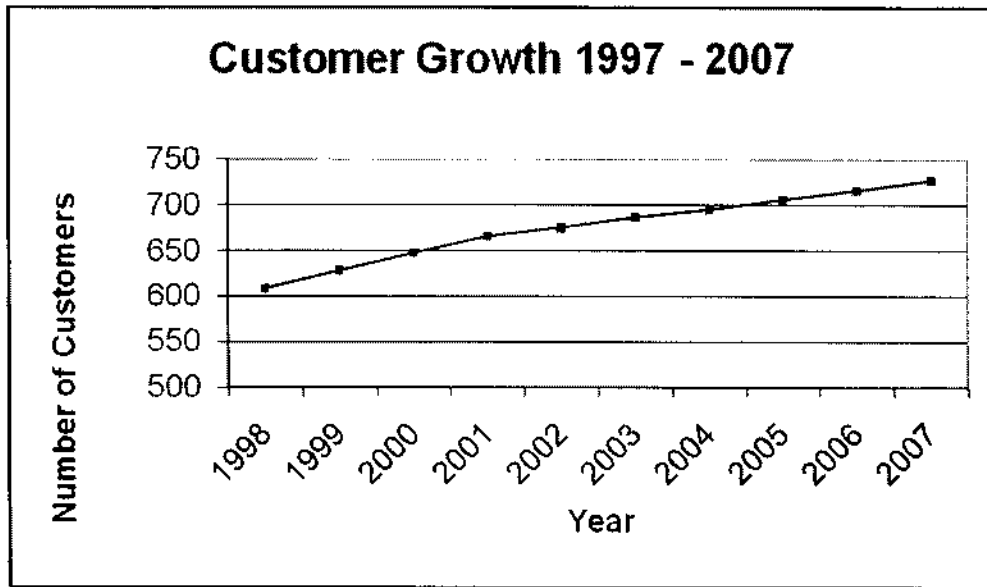
Expenses

Operating expenses totaled \$599,285 for 2008 compared to \$563,949 in 2007, an increase of \$35,336 or 6.27%. In 2007 the increase was 18.49%. This increase is due to the cost of additional water purchased from the Huron Regional Water Authority as a result of Pointe Aux Barques Township becoming a customer.

PORT AUSTIN AREA SEWER & WATER AUTHORITY

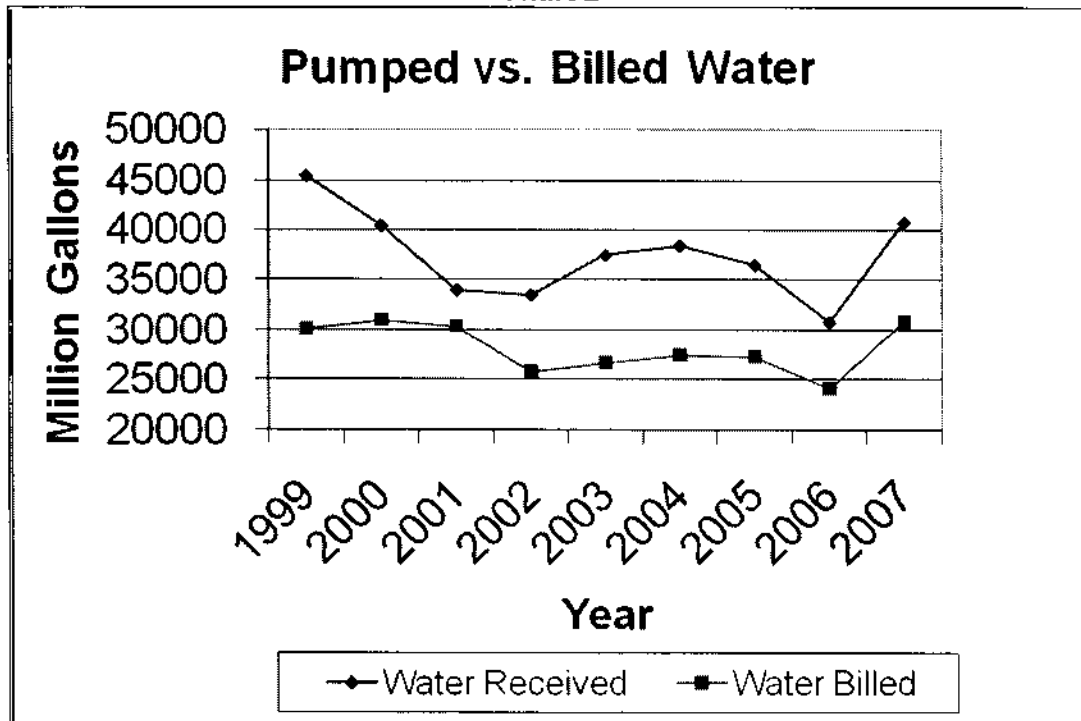
MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart 1



The growth of customers has been steady for the last 10 years. The 609 customers the utility had in 1998 has grown to 727 in 2007. This is an increase of 19% over the last 10 years or 11 new customers per year. A large portion of the growth has been the development of Forest Creek Condominiums and the Woodlands of Port Austin subdivision. The addition of the water main to Pointe Aux Barques Township has added the possibility of an additional 40 users in the future from Port Austin Township.

Chart 2



PORT AUSTIN AREA SEWER & WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

You will note that even though the customer base has grown, the amount of water produced and billed out had been declining until this year. This is due to Pointe Aux Barques Township connecting and receiving water.

PROJECTED CAPITAL EXPENDITURES

The PAASWA is being mandated by the Michigan Department of Environmental Quality to upgrade its wastewater treatment plant. The current plant has limited facilities for removing ammonia from the water that is discharged. The MDEQ has stipulated a time line for compliance. The Authority has been given a deadline of upgrade completion of October 1, 2010. The current NPDES permit expires in October of 2009 and the MDEQ has one year to issue the new permit, thus the deadline of October 2010.

Preliminary projections from the engineering firm initially estimated the total project cost would be between \$1.5 and \$2.0 million. The new projected cost is \$2.5 million.

ECONOMIC FACTORS

PAASWA's service area is a resort town that has a year round population that has a high percentage of retirees on a fixed income. PAASWA also has a summer population that is double that of the year round population. A concern of PAASWA is the year round residents on a fixed income. Large rate increases could be a financial hardship on these customers.

Hume and Port Austin Townships border the PAASWA service area. All of these Townships have indicated they would like to become water customers of PAASWA. This will be a great benefit to the current PAASWA customers since it will spread the cost of the bonds for the Huron Regional Water Plant across many more users, thus lowering the cost to each customer.

Pointe Aux Barques Township has entered into an agreement with PAASWA to receive treated drinking water and began receiving water June 6, 2007.

UTILITY CONTACT INFORMATION

We designed this financial report to provide our customers and creditors with a general overview of the utilities finances and to demonstrate the utilities accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Port Austin Area Sewer and Water Authority, 8747 Hellems Rd., P.O. Box 367, Port Austin, Michigan 48475 or by phone at (989) 738-8366 or email at paaswa@airadvantage.net.

FINANCIAL STATEMENTS

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 958	\$ 2,871
Receivables:		
Usage	82,356	79,808
Special assessment	36,879	38,417
Other	23,143	19,988
Capital Grant - Department of Environmental Quality (Note 10)	-	47,695
Inventory	6,348	6,348
Prepaid expense	12,704	14,836
TOTAL CURRENT ASSETS	<u>162,388</u>	<u>209,963</u>
NONCURRENT ASSETS:		
Investments-savings	138,214	150,412
Special assessments	88,897	126,819
Capital assets - net of accumulated depreciation	3,991,515	3,546,931
TOTAL NONCURRENT ASSETS	<u>4,218,626</u>	<u>3,824,162</u>
TOTAL ASSETS	<u>4,381,014</u>	<u>4,034,125</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	82,354	83,936
Current portion of deferred assessment revenue	36,879	38,417
Grant liability - Department of Environmental Quality (Note 10)	233,756	-
TOTAL CURRENT LIABILITIES	<u>352,989</u>	<u>122,353</u>
NONCURRENT LIABILITIES:		
Long-term portion of deferred assessment revenue	88,897	126,819
TOTAL NONCURRENT LIABILITIES	<u>88,897</u>	<u>126,819</u>
TOTAL LIABILITIES	<u>441,886</u>	<u>249,172</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,680,745	3,546,931
Restricted	-	150,412
Unrestricted	258,383	87,610
TOTAL NET ASSETS	<u>\$ 3,939,128</u>	<u>\$ 3,784,953</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Charges for services	\$ 515,019	\$ 492,179
Other	46,248	15,676
TOTAL OPERATING REVENUES	<u>561,267</u>	<u>507,855</u>
OPERATING EXPENSES:		
Contractual services:		
Management services	367,492	359,601
Legal	635	487
Audit and engineering	9,502	8,600
Board fees	2,295	2,566
Supplies and maintenance	-	7,819
Insurance	18,141	20,706
Other	4,043	3,957
Depreciation	140,936	138,493
Water purchases - Huron Regional Water Authority	197,177	160,213
TOTAL OPERATING EXPENSES	<u>740,221</u>	<u>702,442</u>
OPERATING INCOME (LOSS)	<u>(178,954)</u>	<u>(194,587)</u>
NONOPERATING REVENUES (EXPENSES):		
Capital Grant - Department of Environmental Quality (Note 10)	-	47,695
Special assessments	37,593	34,915
Interest income	11,631	14,636
Gain on sale of equipment	2,600	-
TOTAL NONOPERATING REVENUES	<u>51,824</u>	<u>97,246</u>
INCOME (DEFICIT) BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM	<u>(127,130)</u>	<u>(97,341)</u>
Capital contributions - Pointe Aux Barques Township (Note 11)	329,000	-
DEQ Grant refund (Note 11)	(47,695)	-
CHANGE IN NET ASSETS	<u>154,175</u>	<u>(97,341)</u>
NET ASSETS - BEGINNING OF YEAR	3,784,953	3,882,294
NET ASSETS - END OF YEAR	<u>\$ 3,939,128</u>	<u>\$ 3,784,953</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 555,564	\$ 515,588
Payments to suppliers	(598,735)	(545,371)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(43,171)</u>	<u>(29,783)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Special assessments received	37,593	34,915
Acquisition of capital assets	(256,520)	(66,147)
Capital grant - Department of Environmental Quality	-	47,695
Capital grant financing (Note 10)	233,756	(47,695)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>14,829</u>	<u>(31,232)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of equipment	2,600	-
Proceeds from sale of investments	18,862	58,593
Purchase of investments	(6,664)	(20,582)
Interest revenue	11,631	14,636
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>26,429</u>	<u>52,647</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<u>(1,913)</u>	<u>(8,368)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,871	11,239
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 958</u>	<u>\$ 2,871</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (178,954)	\$ (194,587)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	140,936	138,493
(Increase) decrease in receivables	(5,703)	7,733
(Increase) decrease in inventory	-	7,639
(Increase) decrease in prepaid expenses	2,132	1,471
Increase (decrease) in accounts payable	(1,582)	9,468
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (43,171)</u>	<u>\$ (29,783)</u>
NONCASH INVESTMENT OF CAPITAL RELATED ACTIVITIES		
Pointe Aux Barques (Note 11)	<u>\$ 329,000</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF AUTHORITY OPERATIONS

The Authority operates under an appointed board (four by the Village of Port Austin and one by Port Austin Township) and provides wastewater collection and treatment services to Village and Township residents and the surrounding area as authorized by its ordinance.

From 1981 through 1984, grant monies and construction were recorded in a construction fund of Port Austin Area Sewer and Water Authority. As of June 1983, assets constructed, along with related obligations, were transferred by action of the Authority to the enterprise fund, concurrent with initiation of facility operations.

As is discussed in Note 6, the Authority entered into a water supply system management contract with the Village of Port Austin, effective March 1, 1996, giving them management responsibility for 40 years.

B. REPORTING ENTITY

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations are not considered to be part of the Authority entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements are discussed in the following paragraph.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

On this basis, the financial statements of the Village of Port Austin, which operates autonomously, are not included in the financial statements of the Authority and the Authority is not considered to be a component unit of the Village.

C. BASIS OF PRESENTATION

The financial activities of the Authority are recorded in a fund categorized and described as follows:

PROPRIETARY FUND TYPE:

Enterprise Funds – Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Property, Plant, and Equipment – Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective class of assets, ranging from 10 to 50 years.

Inventory – Inventory in the Enterprise Fund is valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an expense at the time individual inventory items are consumed.

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Restricted Investments and Assessments – A portion of the investments and special assessments of the Water System and Sewer System Funds are classified as restricted because their use is limited. The restrictions are due to bond resolution requirements or to segregate funds for specific purposes.

D. MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital assets (net of related debt), restricted and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

E. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

F. ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS:

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes a local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority and the Authority has no investments as of February 29, 2008.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's investment policy does not directly address a deposit policy for custodial credit risk. At February 29, 2008 the Authority had \$39,172 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)

NOTE 3 - CAPITAL ASSETS:

Capital asset activity for the year ended February 29, 2008, was as follows:

	BALANCE MARCH 1, <u>2007</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE FEBRUARY 29, <u>2008</u>
SANITARY SEWER SYSTEM:				
Capital assets not being depreciated:				
Land - at cost	\$ 51,225	\$ -	\$ -	\$ 51,225
Engineering costs - sewer improvement	52,995	206,550	-	259,545
Total capital assets not being depreciated	<u>104,220</u>	<u>206,550</u>	<u>-</u>	<u>310,770</u>
Capital assets being depreciated - at cost:				
Sewer facility planning and system	4,142,886	7,370	-	4,150,256
Sewer plant	2,200,415	-	-	2,200,415
Equipment	185,382	13,925	11,804	187,503
Furniture and fixtures	61,706	-	-	61,706
	<u>6,590,389</u>	<u>21,295</u>	<u>11,804</u>	<u>6,599,880</u>
Less accumulated depreciation:				
Sewer facility planning and system	1,919,197	84,133	-	2,003,330
Sewer plant	1,035,571	44,513	-	1,080,084
Equipment	156,656	4,972	11,804	149,824
Furniture and fixtures	61,201	-	-	61,201
	<u>3,172,625</u>	<u>133,618</u>	<u>11,804</u>	<u>3,294,439</u>
Total capital assets being depreciated - net	<u>3,417,764</u>	<u>(112,323)</u>	<u>-</u>	<u>3,305,441</u>
WATER SYSTEM:				
Capital assets being depreciated - at cost:				
Water treatment lines	368,446	343,750	309,266	402,930
Water tower	146,100	-	-	146,100
Equipment	94,760	13,925	11,804	96,881
	<u>609,306</u>	<u>357,675</u>	<u>321,070</u>	<u>645,911</u>
Less accumulated depreciation:				
Water treatment lines	361,586	3,794	309,266	56,114
Water tower	132,658	2,016	-	134,674
Equipment	90,115	1,508	11,804	79,819
	<u>584,359</u>	<u>7,318</u>	<u>321,070</u>	<u>270,607</u>
Total capital assets being depreciated - net	<u>24,947</u>	<u>350,357</u>	<u>-</u>	<u>375,304</u>
TOTAL CAPITAL ASSETS - NET	<u><u>\$ 3,546,931</u></u>	<u><u>\$ 444,584</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,991,515</u></u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)

NOTE 3 - CAPITAL ASSETS: (Continued)

Capital asset activity for the year ended February 28, 2007, was as follows:

	BALANCE MARCH 1, 2006	ADDITIONS	DELETIONS	BALANCE FEBRUARY 28, 2007
SANITARY SEWER SYSTEM:				
Capital assets not being depreciated:				
Land - at cost	\$ 51,225	\$ -	\$ -	\$ 51,225
Engineering costs - sewer improvement	-	52,995	-	52,995
Total capital assets not being depreciated	<u>51,225</u>	<u>52,995</u>	<u>-</u>	<u>104,220</u>
Capital assets being depreciated - at cost:				
Sewer facility planning and system	4,142,886	-	-	4,142,886
Sewer plant	2,200,415	-	-	2,200,415
Equipment	172,230	13,152	-	185,382
Furniture and fixtures	61,706	-	-	61,706
	<u>6,577,237</u>	<u>13,152</u>	<u>-</u>	<u>6,590,389</u>
Less accumulated depreciation:				
Sewer facility planning and system	1,835,124	84,073	-	1,919,197
Sewer plant	991,058	44,513	-	1,035,571
Equipment	151,103	5,553	-	156,656
Furniture and fixtures	61,201	-	-	61,201
	<u>3,038,486</u>	<u>134,139</u>	<u>-</u>	<u>3,172,625</u>
Total capital assets being depreciated - net	<u>3,538,751</u>	<u>(120,987)</u>	<u>-</u>	<u>3,417,764</u>
WATER SYSTEM:				
Capital assets not being depreciated:				
Land - at cost	-	-	-	-
Capital assets being depreciated - at cost:				
Water treatment plant	368,446	-	-	368,446
Water tower	146,100	-	-	146,100
Equipment	94,760	-	-	94,760
	<u>609,306</u>	<u>-</u>	<u>-</u>	<u>609,306</u>
Less accumulated depreciation:				
Water treatment plant	360,266	1,320	-	361,586
Water tower	130,643	2,015	-	132,658
Equipment	89,096	1,019	-	90,115
	<u>580,005</u>	<u>4,354</u>	<u>-</u>	<u>584,359</u>
Total capital assets being depreciated - net	<u>29,301</u>	<u>(4,354)</u>	<u>-</u>	<u>24,947</u>
TOTAL CAPITAL ASSETS - NET	<u><u>\$ 3,619,277</u></u>	<u><u>\$ (72,346)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,546,931</u></u>

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)**

NOTE 3 - CAPITAL ASSETS: (Continued)

Included in expenses were depreciation charges totaling the following:

	<u>2008</u>	<u>2007</u>
Sanitary Sewer Enterprise Fund	\$ 133,618	\$ 134,139
Water Systems Enterprise Fund	<u>\$ 7,318</u>	<u>\$ 4,354</u>

NOTE 4 - ASSESSMENTS RECEIVABLE:

In conjunction with the construction of the sanitary sewer facilities, the Port Austin Area Sewer and Water Authority sold bonds to finance 20% of said construction. The bonds were paid off in 2006. To retire these bonds, assessments have been assigned to the benefited properties.

Assessments receivable are carried as accounts receivable from the benefited property owners. The receivables carry an interest rate of 6% and amounted to \$125,776 and \$165,236 at February 29, 2008 and February 28, 2007, respectively. The assessments receivable were restricted for payment of the outstanding Sewage Disposal System Limited Tax General Obligation Bonds, which were paid off as of February 28, 2007.

NOTE 5 - WATER SUPPLY SYSTEM MANAGEMENT CONTRACT:

Effective March 1, 1996 the Port Austin Area Sewer and Water Authority entered into a water supply system management contract with the Village of Port Austin and the Township of Port Austin. Major elements of the agreement are as follows:

- The Authority will manage, operate, maintain and administer the water system for the Village and the Township and will comply with all requirements of the Rural Economic and Community Development Agency of the United States Department of Agriculture relative to outstanding Village bonds.
- Rates charged to customers will be recommended by the Authority and adopted by ordinance in each local unit.
- The Authority will prepare the annual budget.
- The Authority will prepare an annual report of its management of the water system and have an annual audited financial report.
- The local units will hold legal title to the system for assets transferred at the onset of the agreement.
- The term of the agreement is 40 years.

Because of the term of the agreement, the former Water Fund in the Village of Port Austin is now being reported upon in the financial statements of the Port Austin Area Sewer and Water Authority.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)**

NOTE 6 – REGIONAL WATER AUTHORITY MANAGEMENT CONTRACT:

On April 1, 2004 the Village of Port Austin (with which the Authority has an exclusive water supply management contract) and the City of Bad Axe entered into a management contract with a newly formed Huron Regional Water Authority. The purpose of the contract is to supply lake water to the City, the Village and immediate surrounding areas. Major provisions of the 40 year contract include the following:

- 1) Construction of shared facilities, primarily a new treatment plant and a new pumping station.
- 2) The Authority deeded the water intake system and land to the Huron Regional Water Authority.
- 3) The Huron Regional Water Authority paid off bonds related to the intake system totaling \$923,000 and also paid off a land contract on the land totaling \$149,650.
- 4) The Huron Regional Water Authority reimbursed the Authority for \$119,168 of prior period costs advanced.
- 5) The Huron Regional Water Authority will be responsible for operation and maintenance of all shared facilities (water intake, treatment plant and pumping and transmission lines to the local units of government).
- 6) The City of Bad Axe and the Port Austin Area Sewer and Water Authority will purchase water from the Huron Regional Water Authority and will be responsible for their own local distribution and billing.

The facilities at the new Huron Regional Water Authority became operational on January 1, 2006.

NOTE 7 - SERVICE AGREEMENT:

During the year ended February 28, 2006, the Authority entered into an agreement with Wade-Trim Operations Services to provide operational services. The term of the agreement was for five years, commencing June 1, 2006, and has renewal options. The annual base fee at February 29, 2008 for the water system and the wastewater system is \$365,544 (billed \$30,462 monthly). Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or for a greater than 5% increase in utility rates. Additionally, the Authority will pay for all capital expenditures and will maintain general liability, personal injury and property insurance on the facilities. Major services provided by Wade-Trim Operations include:

- 1) Day to day operational costs of the water and wastewater system, including labor costs, utility costs and chemical costs.
- 2) Preventative and corrective maintenance and repairs, up to \$40,000 per year.
- 3) Perform reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state, and federal regulatory agencies.

NOTE 8 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates with Michigan Community Underwriters for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability. The Insurer operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(CONTINUED)**

NOTE 9 – CONTINGENCY:

On June 8, 2005, the Authority received correspondence from the Department of Environmental Quality at the State of Michigan (D.E.Q.), mandating that the Authority upgrade its facilities to reduce unwanted elements in the discharge of water from its sewage treatment plant.

The initial timetable for this upgrade was as follows:

- March 31, 2006 – Submit a preliminary engineering report and develop a funding and financing plan.
- October 31, 2006 – Submit final plans for the facility.
- January 31, 2007 – Receive construction bids.
- December 31, 2007 – Complete construction and obtain appropriate operational level.

As of February 29, 2008, this timetable has not been met. Initial project plans have been approved by the D.E.Q. Although formal approval has not been received from the D.E.Q. it is anticipated by the Authority that deviation from this timetable will be granted, with construction of the project to be completed by October 1, 2010. The total cost of the project is estimated to be \$2,500,000.

NOTE 10 – DEPARTMENT OF ENVIRONMENTAL QUALITY GRANT:

During the fiscal year ended February 29, 2008 the Authority received grants totaling \$233,756 from the Michigan Department of Environmental Quality for the planning and design engineering costs related to upgrading the sewer plant facilities mentioned in Note 9. The grants were contingent upon financing the upgrade using D.E.Q. State Revolving Fund proceeds. However, due to rate structure mandates related to the D.E.Q. financing, the Authority has decided to finance the upgrade using funds provided by U.S.D.A. Rural Development. Therefore, the grants received are anticipated to be paid back to the D.E.Q. and a liability for \$233,756 has been recognized. \$47,695 was recognized as revenue in the prior period.

NOTE 11 – EXTRAORDINARY ITEM:

In accordance with a 40 year contract the Authority has agreed to provide water to a central metering pit at Pointe Aux Barques Township. The Township agreed to pay the cost of \$329,000 to run the water line to the central metering pit. The Authority has agreed to maintain the water line for the term of the agreement and has ownership of the line. The Authority has also agreed to bill the Township at a rate of 110% of the bulk water rate (currently \$5.40) based upon metered usage. The cost of \$329,000 has been capitalized and is reported as an extraordinary item in the financial statements.

SUPPLEMENTARY INFORMATION

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF NET ASSETS
FEBRUARY 29, 2008**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 336,234	\$ (335,276)	\$ 958
Receivables:			
Usage	51,250	31,106	82,356
Special assessment	-	36,879	36,879
Other	23,143	-	23,143
Inventory	4,000	2,348	6,348
Prepaid expense	3,074	9,630	12,704
TOTAL CURRENT ASSETS	<u>417,701</u>	<u>(255,313)</u>	<u>162,388</u>
NONCURRENT ASSETS:			
Investments-savings	42,646	95,568	138,214
Special assessments	-	88,897	88,897
Capital assets - net of accumulated depreciation	375,304	3,616,211	3,991,515
TOTAL NONCURRENT ASSETS	<u>417,950</u>	<u>3,800,676</u>	<u>4,218,626</u>
TOTAL ASSETS	<u>835,651</u>	<u>3,545,363</u>	<u>4,381,014</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts payable	40,880	41,474	82,354
Current portion of deferred assessment revenue	-	36,879	36,879
Grant liability - Department of Environmental Quality (Note 11)	-	233,756	233,756
TOTAL CURRENT LIABILITIES	<u>40,880</u>	<u>312,109</u>	<u>352,989</u>
NONCURRENT LIABILITIES:			
Long-term portion of deferred assessment revenue	-	88,897	88,897
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>88,897</u>	<u>88,897</u>
TOTAL LIABILITIES	<u>40,880</u>	<u>401,006</u>	<u>441,886</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	375,304	3,305,441	3,680,745
Restricted	-	-	-
Unrestricted	419,467	(161,084)	258,383
TOTAL NET ASSETS	<u>\$ 794,771</u>	<u>\$ 3,144,357</u>	<u>\$ 3,939,128</u>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
OPERATING REVENUES:			
Charges for services	\$ 303,163	\$ 211,856	\$ 515,019
Other	42,774	3,474	46,248
TOTAL OPERATING REVENUES	<u>345,937</u>	<u>215,330</u>	<u>561,267</u>
OPERATING EXPENSES:			
Contractual services:			
Management services	78,104	289,388	367,492
Legal	248	387	635
Audit and engineering	7,637	1,865	9,502
Board fees	1,148	1,147	2,295
Insurance	5,061	13,080	18,141
Other	1,673	2,370	4,043
Depreciation	7,318	133,618	140,936
Water purchases - Huron Regional Water Authority	197,177	-	197,177
TOTAL OPERATING EXPENSES	<u>298,366</u>	<u>441,855</u>	<u>740,221</u>
OPERATING INCOME (LOSS)	<u>47,571</u>	<u>(226,525)</u>	<u>(178,954)</u>
NONOPERATING REVENUES (EXPENSES):			
Special assessments	-	37,593	37,593
Interest income	449	11,182	11,631
Gain on sale of equipment	1,300	1,300	2,600
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,749</u>	<u>50,075</u>	<u>51,824</u>
INCOME (DEFICIT) BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM	49,320	(176,450)	(127,130)
Capital contributions - Pointe Aux Barques Township (Note 11)	329,000	-	329,000
DEQ Grant refund (Note 11)	-	(47,695)	(47,695)
CHANGE IN NET ASSETS	<u>378,320</u>	<u>(224,145)</u>	<u>154,175</u>
NET ASSETS - BEGINNING OF YEAR	416,451	3,368,502	3,784,953
NET ASSETS - END OF YEAR	<u>\$ 794,771</u>	<u>\$ 3,144,357</u>	<u>\$ 3,939,128</u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2008**

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 342,070	\$ 213,494	\$ 555,564
Payments to suppliers	(291,282)	(307,453)	(598,735)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>50,788</u>	<u>(93,959)</u>	<u>(43,171)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Special assessments received	-	37,593	37,593
Acquisition of capital assets	(28,675)	(227,845)	(256,520)
Capital grant financing	-	233,756	233,756
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(28,675)</u>	<u>43,504</u>	<u>14,829</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of equipment	1,300	1,300	2,600
Proceeds from sale of investments	18,862	-	18,862
Purchase of investments	-	(6,664)	(6,664)
Interest revenue	449	11,182	11,631
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>20,611</u>	<u>5,818</u>	<u>26,429</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<u>42,724</u>	<u>(44,637)</u>	<u>(1,913)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	293,510	(290,639)	2,871
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 336,234</u></u>	<u><u>\$ (335,276)</u></u>	<u><u>\$ 958</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 47,571	\$ (226,525)	\$ (178,954)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	7,318	133,618	140,936
(Increase) decrease in receivables	(3,867)	(1,836)	(5,703)
(Increase) decrease in inventory	-	-	-
(Increase) decrease in prepaid expenses	1,073	1,059	2,132
Increase (decrease) in accounts payable	(1,307)	(275)	(1,582)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 50,788</u></u>	<u><u>\$ (93,959)</u></u>	<u><u>\$ (43,171)</u></u>
NONCASH INVESTMENT OF CAPITAL RELATED ACTIVITIES			
Pointe Aux Barques (Note 11)	<u><u>\$ 329,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 329,000</u></u>

BRINING & NARTKER, P.C.

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To the Authority Members
Port Austin Area Sewer and Water Authority
Port Austin, Michigan

In planning and performing our audit of the financial statements of the Port Austin Area Sewer and Water Authority, Huron County, Michigan as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Port Austin Area Sewer and Water Authority, Huron County, Michigan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be a significant deficiency in internal control.

The Authority officials have the ability to perform internal accounting functions and prepare bank reconciliations. Generally accepted accounting principles also require that the Authority prepare financial statements including the related notes to the financial statements. As is the case with many small governments, the Authority has relied on its independent external auditors to assist in the preparation of the financial statements and notes thereto as part of its external financial reporting process. External auditors cannot, by definition, be considered part of the Authority's internal controls over financial reporting. The Authority has decided that it is more cost effective and in the best interest of the Authority to outsource this task to its external auditors and to carefully review the financial statements and notes thereto prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


Brining & Nartker, P.C.
Certified Public Accountants

August 22, 2008